

THE 2011-13 OPERATING BUDGET

A responsible, thoughtful, sustainable solution



2011: Legislators face a \$5.1 billion budget problem

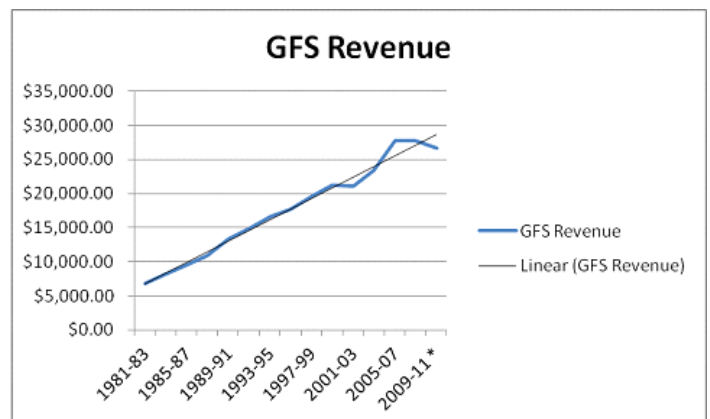
Washington, like nearly every other state in the country, has continued to feel the economic drag resulting from the worst recession since the 1930's. Nationally, 44 states were projecting shortfalls for the coming fiscal year.

Heading into the 2011 session, Washington's legislators faced a \$5.1 billion budget hole for 2011-13 (the difference between projected revenues and projected costs to maintain programs at current levels).

State revenue shrunk during the recession

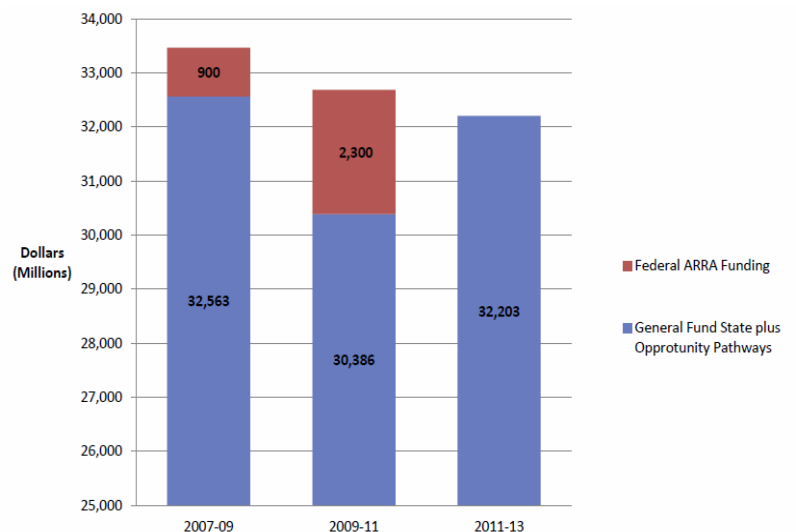
Washington's revenue is very dependent on the sales tax and construction activity. Construction is about 4 percent of the state economy but accounts for 8 percent of our revenue in most years. The real estate crash has devastated that portion of our revenue stream.

This chart shows the 25-year trend line of general fund state revenue (GFS). The variation in the last two biennia has been very extreme, causing major disruptions in the services we provide for citizens.



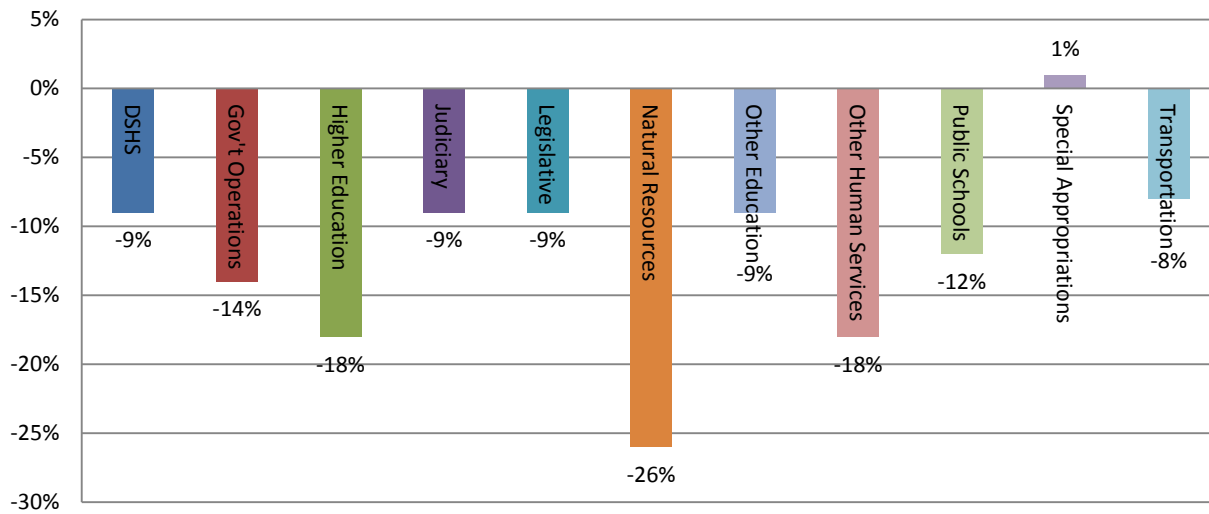
Revenue is starting to increase, but we're still spending less

Even with modest budget growth in 2011-13, we'll still spend less than in the last two years. That's because federal ARRA funding helped reduce many of the cuts we would have had to make last biennium, but state funding isn't enough to replace ARRA funding in 2011-13.



The 2011-13 Operating Budget – The Basics

This year, the overall state budget was reduced 11 percent from maintenance level, the cost of continuing services at current policy levels. This chart shows the budget reductions across state government.



\$4.5 billion reductions including:

- \$1.2 billion for I-728 and I-732, the classroom size and teacher pay initiatives
- \$535 million for higher education institutions (offset partly with increased tuition revenue)
- \$344 million from changing future pension benefits for certain state retirees
- \$215 million from elimination of K-4 class size enhancement
- \$179 million in K-12 employee salary and \$177 million from 3-percent reduction in state employee salaries
- \$129 million from changes to Basic Health Plan
- \$116 million in reduced Disability Lifeline cash grants (continuation of ESHB 1086 reduction) Note that remaining funding for the cash grant program is transformed into a housing program
- \$97 million for reduced personal care hours for long term care and developmentally disabled clients
- \$61 million from changes to the K-12 National Board Bonus program

\$424 million in additional funding, some of which are related to achieving greater savings, including:

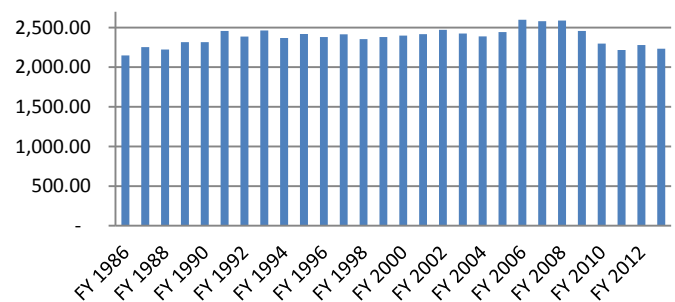
- \$115 million repayment of K-12 apportionment delay in 2011 Supplemental Budget
- \$124 million for higher ed State Need Grant
- \$28 million for increased debt service
- \$82 million in K-12 related items (mostly related to new funding formula)
- \$11 million repayment to State Efficiency and Reorganization Account (SERA)

\$459 million in fund transfers

54 bills considered "necessary to implement the budget."

This was an unusually large number, due entirely to the structural and policy-level changes needed to achieve deep savings. For example, the budget assumes a new Department of Enterprise Services, a consolidation of services such as printing and personnel currently provided by five different agencies. That consolidation requires legislation.

State spending per person is at the lowest rate since 1987
(Adjusted for inflation)



The 2011-13 Operating Budget – The Approach

As chair of the House budget-writing committee, it was important to me that we make **responsible, thoughtful, and sustainable decisions**. I also tried to make it consistent with my values and the reason I ran for this job in the first place. I care about children – their education, their health, and their future – and I tried to protect those as much as possible given the situation.

Responsible

We spend less this biennium than we bring in with taxes. Any budget this large will include things that people differ over, but we tried very hard to be straight-up and simple about how we do the accounting.

For example, we fund our pension accounts at 100% of the level recommended by the state actuary. A significant amount of pension liability has been pushed forward in prior years to instead fund other programs. Though we are far ahead of most states, we still have a large amount of funds that need to be made up, so despite the tough budget situation, we took the responsible step of beginning that process now.

Thoughtful

It's easy to balance a budget with short-term cuts that cost us more down the road. Though we couldn't avoid such cuts entirely, we made a significant effort to avoid that. We prioritized funding for early learning for at-risk kids because we have lots of empirical data that investments here save us money in the long run. We expanded funding for family planning because, again, it actually saves us more money than it costs.

Sustainable

We tried to make this budget "sustainable" by taking out a lot of the measures that grow the state budget significantly faster than our revenue grows. This budget essentially reduces the starting point on spending for nearly every government service.

We still have work to do and decisions to make.

First, we have to ask ourselves if these new funding levels are what we want moving forward. Do we want lower levels of higher education funding? Do we want reduced levels of mental health services? We cannot approach sustainability as solely an exercise in budget cutting – we need to decide what we want to do and ensure we can fund those things adequately.

Second, we need to address some of the cost-drivers in our budget. The chart below shows that the projected growth rates of several programs significantly exceed the growth rate of our revenue stream, especially medical and long-term care programs.

While revenue grows just under 5 percent per year, the cost of many services grows more quickly. Over time, without action, those programs take over a larger proportion of the budget while the proportion for some programs, such as higher education, begins to shrink.

